C O M M I T T E E O N L E G I S L A T I V E R E S E A R C H
O V E R S I G H T D I V I S I O N

FISCAL NOTE

L.R. No.: 4787-02
Bill No.: SB 890
Subject: Housing; Taxation and Revenue; Tax Credits
Type: Original
Date: February 16, 2010

Bill Summary: This proposal places a one year moratorium on the authorization of Low Income Housing tax credits and MDFB Infrastructure tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$0 to Unknown	$0 to Unknown	$12,193,281 to Unknown
Total Estimated Net Effect on General Revenue Fund	**$0 to Unknown**	**$0 to Unknown**	**$12,193,281 to Unknown**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Economic Development - Missouri Housing Development Commission (MHDC)** state they administer the Mo. LIHTC. This bill sets a moratorium on Mo. LIHTC authorizations for the 12 month period following the effective date of the bill. The bill has an emergency clause. If we assume this bill passes as drafted in the introduced version and becomes immediately effective sometime before the end of the session in May, the moratorium would essentially mean that no state credits would be authorized in FY 2011. Because there is a significant time (approximately 18-24 months) between the date a project is authorized Mo. LIHTC and when those credits are redeemed, there would be no projected cost savings for the state associated with the moratorium until FY 2013. In FY 2013, the estimated cost savings would be $12,193,281 in General Revenue.

Because the Mo. LIHTC is a 10-year credit, the reduction in tax credit issuances and redemptions due to the moratorium on authorizations would continue through FY 2024. The long-range reduction in redemptions associated with the moratorium would be $177,050,466 over the years FY 2014 - FY 2024. The reduction in tax credit costs by fiscal year over the period is listed below.

FY14	$18,424,375
FY15	$18,924,375
FY16	$18,924,375
FY17	$18,924,375
FY18	$18,924,375
FY19	$18,924,375
FY20	$18,924,375
FY21	$18,924,375
FY22	$18,924,375
FY23	$6,731,094
FY24	$500,000

There are two types of Mo. LIHTC: 9% credits, which are capped at the federal LIHTC limit based on a published rate multiplied by the state's population; and 4% credits, which are capped at $6 million in annual authorizations. The estimated 9% annual authorization amount for FY11

ASSUMPTION (continued)

is $12,924,375. The combined annual authorization amount for the two types of credits in FY11 is projected to be $18,924,375. The Mo. LIHTC is a 10-year credit, which means that the annual credit amounts are issued each year for 10 years. For the purpose of authorizing credits, the full ten-year amount is counted at the time of authorization. Therefore, the total FY11 authorizations would be $189,243,747.

For the purpose of estimating the fiscal impact of SB 890, we will assume that all the credits that would have been authorized in FY11 would eventually be issued. Using the timing assumptions from a historical analysis of the time between authorization and issuance, the FY11 authorized credits would be initially issued during FY 2013 - FY 2015. The 10-years of issuances would continue until FY 2022 - FY 2024 (projects initially issued in FY 2013 would be issued credits each year until FY 2022).

- Projections for the initial (first-year) issuance of 9% LIHTC are as follows: 75% ($9,683,281) in FY13 and the remaining 25% ($3,231,094) in FY14.
- Projections for the initial issuance of 4% LIHTC are as follows: 41.67% ($2,500,000) in FY13, 50% ($3,000,000) in FY14, and 8.33% ($500,000) in FY15.
- The estimated initial issuances in FY13 would be $12,193,281 ($9,683,281+$2,500,000).
- The remaining issuances over FY14-FY24 would be $177,050,466 ($189,243,747-$12,193,281).

A tax credit cannot be redeemed by a taxpayer until after issuance, and once again it is not until redemption that the credit actually "costs" the state. It is impossible to know when individual taxpayers will decide to redeem their credits. The Mo. LIHTC has a three-year carry back and five-year carry forward, which means that the credits associated from FY 2011 authorizations and subsequent issuances in FY 2013 - 2024 could actually be redeemed against liability in tax years 2010 to 2029. For the sake of estimating fiscal impact, we will assume that all credits would have been redeemed in the year issuance. Based on the calculations above, the projected reduction in redemptions associated with Mo. LIHTC that would have been authorized in FY11 would be as follows:

FY11: $0
FY12: $0
FY13: $12,193,281
FY14-FY24: $177,050,466.

ASSUMPTION (continued)

Officials from the **Department of Economic Development - Missouri Development Finance Board (MDFB)** state there is a potential indirect affect to Total State Revenue as tax credits offset State Revenue. It is unknown what this impact would be.

Despite the moratorium, credits will still be issued under this program during the next 12 months due to the fact that there have been projects that have received authorizations prior to the legislation and the issuance of such credits would not be impacted by this legislation.

The legislation would prohibit the authorization of new project allocations. As such, only the lack of new authorizations for issuances would impact State Revenue and the factors are too numerous to determine how/when this would affect State General Revenue. It is unknown whether or not new projects will seek credits. If they do seek credits, it is unknown if they will receive authorization. If authorization is granted, it is unknown if they will be successful in their efforts to raise contributions. And if contributions are raised, taxpayer behavior is unknown as we cannot predict if/when the credits will be redeemed.

It is impossible to determine for certain, but the bill could potentially result in a lag in construction projects that could not move forward without the Board's assistance.

Oversight will reflect a $0 to Unknown savings in each fiscal year of the fiscal note as a result of the moratorium of issuance of the Infrastructure Contribution tax credit. Oversight is unsure of the lag time between authorization of projects, issuance of credits and redemption of those credits and how this proposal will impact those three. The MDFB issued $27.1 million in credits under this program in FY 2007, $31.0 million in FY 2008 and $19.7 million in FY 2009. According to the Tax Credit Analysis form prepared for the budget, the anticipated issuance amounts for this program are $45.0 million in FY 2010 and $32.5 million in FY 2011.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal places a one-year moratorium on the issuance of MDFB Infrastructure and LIHP credits, beginning the effective date of the proposal (August 28, 2010). This proposal would reduce the issuance and redemption of credits in future fiscal years. This proposal may also reduce economic activity and associated induced revenues. DED may have estimates of these revenues. The MDFB authorized $67.9M in credits in FY09, has authorized $6M so far in FY10, and is projecting $8M in FY11.

The LIHP authorized an estimated $160M in credits in FY09, and is projecting $195M in each of FYs 10 and 11.

ASSUMPTION (continued)

Oversight will utilize the MHDC's estimate in the delay between the tax credit authorization (when project approved - assumed to be FY 2011) versus issuance (when project completed - assumed to be FY 2013). If the state 'skips' a year of low income housing tax credit project authorizations, the ten year flow of tax credits will be savings to the state from FY 2013 to FY 2024.

Oversight assumes there would be some negative fiscal impact to the state for the one year moratorium on issuance of these tax credits. However, Oversight assumes these impacts are indirect effects of the bill and have not reflected them on the fiscal note.

This proposal could increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2011	FY 2012	FY 2013
GENERAL REVENUE			
Savings - MDFB One year moratorium on the authorization of Infrastructure Development Fund Contribution tax credits	$0 to Unknown	$0 to Unknown	$0 to Unknown
Savings - MHDC One year moratorium on the authorization of low income housing tax credits.	$0	$0	$12,193,281
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to Unknown**	**$0 to Unknown**	**$12,193,281 to Unknown**

FISCAL IMPACT - Local Government	FY 2011	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that receive the impacted credits could be negatively impacted by this proposal.

FISCAL DESCRIPTION

This act prohibits the authorization for issuance of Low Income Housing and Missouri Development Finance Board Infrastructure Development Fund Contribution Tax Credits for the one year period beginning on the effective date of the act.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning

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